



P O Box 220  
Jackson, AL 36545  
251.246.9864

---

February 21, 2017

Mr. Robert deV. Frierson  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

**Via Agency Website**

**Re: Docket No. R-1547; RIN 7100 AE-58, Risk-based Capital and Other Regulatory Requirements for Activities of Financial Holding Companies Related to Physical Commodities and Risk-based Capital Requirements for Merchant Banking Investments, Notice of Proposed Rulemaking**

We submit this letter in response to the request for comments by the Board of Governors of the Federal Reserve System (the "Board") in its Notice of Proposed Rulemaking (the "NOPR") relating to the physical commodity activities of financial holding companies ("FHCs"). These comments are filed on behalf of The Black Belt Energy Gas District ("Black Belt").

Black Belt is a public corporation formed by three member municipalities under the provisions of the Alabama Gas Districts Act, § 11-50-390, *et seq.*, Alabama Code (1975). The member municipalities of Black Belt are the City of Jackson, Alabama; the Town of Grove Hill, Alabama; and the City of Thomasville, Alabama. It is a governmental entity. Its Board of Directors is comprised of the mayors of its member municipalities.

Black Belt is a joint action gas supply agency that provides wholesale sales service to municipal gas systems both within and outside the State of Alabama. Black Belt also provides natural gas management services for certain large industrial customers.

Black Belt is a participant in the municipal gas marketplace, including the marketplace for long-term gas supplies. These gas supplies are essential to enable Black Belt to meet the

needs of its customers for reliable, secure, firm natural gas deliveries at reasonable and competitive prices. One of the primary strategies to meet these needs which Black Belt has pursued in recent years, is pursuing today, and intends to pursue in the years to come is the purchase of natural gas supplies through gas prepayment transactions. FHCs are among the primary participants in this marketplace as gas suppliers. As such they provide an essential service to the municipal gas industry, one that we believe could not and would not be replicated or replaced by other industry participants, at least not under market conditions that have prevailed over at least the past ten years.

In 2016, Black Belt successfully closed a gas prepayment transaction that will, for the next 30 years, continuously provide discounted gas to joint action agencies and distribution systems across five states—Alabama, Georgia, Kentucky, South Carolina and Tennessee—and more than 150 cities and towns. It is essential to the health of our systems and the customers we serve that Black Belt and other municipal gas systems have the option available to them to purchase long-term natural gas supplies through gas prepayment transactions. Accordingly, any governmental steps, including those contemplated in the NOPR, that would lead to the inability of FHCs to participate in that marketplace or would increase the cost of doing so would be adverse to the interests of Black Belt, our member municipalities, and all of the consumers we serve – residential, commercial, institutional and industrial. Black Belt's interests are consistent with the interests of the natural gas consuming public that we serve.

Black Belt filed comments on the ANPR in April 2014, and met with the General Counsel of the Federal Reserve to discuss the natural gas industry in which the entities operate. We appreciate the fact that the NOPR steps back from the prohibition on FHCs remaining in the physical natural gas business that was contemplated in the ANPR. However, we think the NOPR is an overreach, a solution in search of a problem as it pertains to the natural gas industry.

The NOPR proposes increases in capitalization requirements that will increase the cost of

doing business for FHCs participating in the natural gas markets. This would have the result of increasing the cost of natural gas prepayments for Black Belt and therefore for consumers served by municipal gas systems. The economics of gas prepayments in the marketplace that have prevailed over the last several years make the successful completion of such projects difficult. Any increase in the cost to prepaid gas suppliers of providing the supply has a negative effect on our ability to close them. Capitalization requirements on holding inventory provide a disincentive for FHCs to be physical gas suppliers in prepayment transactions other than as suppliers taking transitory or flash title to gas and relying on others as upstream physical commodity suppliers. We view the 300% capitalization as being excessive and outside what would be applicable in the marketplace. The NOPR could convince some FHCs to withdraw from the physical gas markets as it becomes more difficult to operate profitably. A reduction in the number of prepaid gas suppliers in the market will be detrimental to municipal gas systems.

Not only would the departure of FHCs from the physical commodity marketplace be highly adverse to the interests of municipal natural gas systems and gas consumers, it would serve no countervailing public purpose. Our experience is that FHCs are the most creditworthy counterparties with which we have an opportunity to transact business. Our experience is that FHCs are more efficient and operate in a regulated environment that results in them taking a cautious, businesslike approach to their commercial obligations and strict adherence to the requirements of their contracts. They are experienced participants in the natural gas commodities markets and have developed an increasingly sophisticated understanding of the specific markets in which they operate. We have found them to be customer-oriented with a strong desire to be long-term business partners with us. Short-term benefit has never trumped the preservation of long-term relationships in our experience with them.

The natural gas commodities marketplace has only been deregulated for a couple of decades. We have already seen significant changes in the structure of that industry in those two decades. We strongly believe that changes brought about by regulatory fiat would not be in

the public interest and would cause significant upheaval, particularly in the long-term gas supply marketplace.

The ANPR expressed, and in turn the NOPR expresses, concern about the impact that catastrophic losses, exemplified by the Macondo disaster in the Gulf of Mexico and the San Bruno pipeline rupture in California, could have on FHCs as a result of their participation in the physical commodities markets. This fear, in our view, is inapplicable and misplaced, because we are talking about the purchase and sale of natural gas by FHCs in the market. Such commercial activities do not involve the ownership of oil and gas producing infrastructure or gas or oil transmission pipelines, or anything comparable to them that poses the risk of catastrophic loss.

Accordingly, it is our view that those FHCs that wish to should be permitted to continue to play the roles in the physical gas commodity marketplace that they have come to play in recent years. We believe the Board should not impose additional restrictions, operational or financial, on FHCs that are participants in the physical natural gas commodity industry and believe that doing so would have the effect of harming Black Belt and the consumers we serve and similar systems and consumers nationwide.

We also think the best course of action for the Board to take at this juncture is to defer any further action with respect to the NOPR until new appointments to the Board have been filled, the new Administration has had an opportunity to weigh in on the issues presented, and members of the new Congress and the Committees of jurisdiction have likewise had an opportunity to consider the issues and present their views if they should choose to do so.

As always, we appreciate the opportunity to comment and would be pleased to answer any questions the Board may have of us as it continues to analyze these important issues. We are grateful for being provided the opportunity to have input in the process and to have our views considered.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Cynthia Jackson', written in black ink.

---

Cynthia Jackson, Mayor of the Town of Grove Hill, Alabama  
Chairman of the Board of The Black Belt Energy Gas District